13 September 2017

Finland Research

Stronger growth pushing debt ratio down

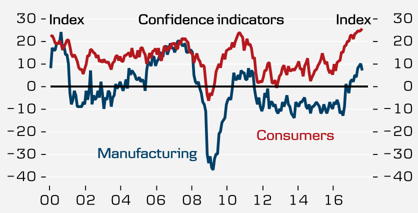
- The Finnish economy steamed ahead in Q2 17 as well. GDP rose 3% y/y in H1 and FY 2016 has been revised up to 1.9%. Leading indicators continue to be elevated. We have revised our forecast higher for 2018 and expect Finnish GDP to grow 2.8% in 2017 and 1.8% in 2018. Finnish GDP is still below the previous peak and the economy is cruising towards potential output, which it may reach soon. Future growth depends on structural reforms and labour participation, which is well below other Nordic countries.
- Private consumption continues to grow 2% in 2017. Rising inflation and low wage growth challenge purchasing power, but better employment, high confidence, an income tax cut and cheap debt have kept consumption on a growth track. Industrial wage negotiations later this year are likely to lead to modest wage rises.
- The housing market is divided geographically and by type of housing. A demographic shift towards smaller families and migration to growth centres has increased demand for small apartments. Strong demand has raised prices and fuelled a construction boom in Helsinki and some other towns, while dwelling prices have dropped in some parts.
- Exports of goods and services rose 7.9% in Q2 and business surveys imply growing order books. The outlook is better thanks to growth in export markets, especially Russia, improving price competitiveness, several large ship orders and new production facilities in forest and automotive industries. Growing demand, higher confidence and low interest rates have boosted manufacturing investment too.
- Public finances are getting stronger due to economic growth and earlier austerity measures. The central government budget for 2018 is likely to have a EUR3bn euro deficit, a significant improvement from the EUR5.4bn expected in 2017. The general government debt-to-GDP ratio peaked in 2015, as revisions to 2016 GDP and better growth outlook have improved debt dynamics. Structural reforms are still needed to manage the needs of an ageing population and to boost potential growth, however, otherwise debt ratio could resume its rising trend in the medium run. The rating outlook is getting brighter, but rating agencies are likely to need further evidence of sustained improvement, before raising 'AA+/Aa1' sovereign credit ratings.

Table 1. Danske Bank forecasts

FINLAND	Current forecast 2016	2017	2018	Previous forecast 2016	2017
GDP, %	1.9	2.8	1.8	2.8	1.5
Unemployment rate, %	8.8	8.5	8.0	8.4	7.9
Inflation, %	0.4	0.7	1.1	0.9	1.0
Earnings, %	1.2	0.2	1.5	0.4	1.1
Housing prices, %	1.0	1.5	1.5	1.0	1.5
CA, % of GDP	-1.1	0.4	-0.4	-1.1	-0.9
Public debt, % of GDP	63.1	63.0	62.4	64.0	64.2

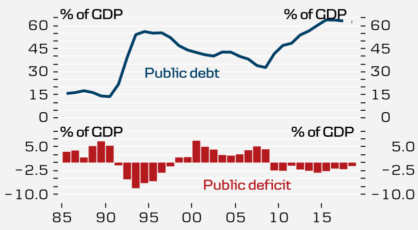
Source: Danske Bank

Confidence is high



Source: Macrobond Financial

Debt-to-GDP growth slows down



Source: Macrobond Financial

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Expected updates

None.

Date of first publication

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Report completed: 13 September 2017, 06:13 GMT +1

Report first disseminated: 13 September 2017, 09:15 GMT +1